

## Exempt and Ordinary Income

Deadlines are absolute and required for any extraordinary exemption (see below). Extraordinary exemptions must be approved by the Vicar General, or Bishop.

There are three types of exemption: (1) Categorical; (2) Expenditure Limit Index; and (3) Additional considerations.

### EXEMPTION A: Standard exemption by Category

Ordinary Income	Exempt Income
Offertory	Subsidies (diocesan or other parish)
DDD Rebate	Intermountain Catholic
Votive/Candle/Flowers	USCCB Collections
Sacramental and Sacristy	Diocesan Special Collections
Parish Events *	Charity to the Poor
Interest Income (D&L, Bank)	Faith Formation Income
Dividend Income	Tuition and Fees for Religious Education
Capital Gains (Investments, Equip., Property)	Catholic Schools Income
Insurance Recovery	Men's Club, Knights of Columbus
Rental Income	Diocesan Council of Catholic Women
Gift Shop & Religious Supplies *	Other Women's Ministry Group
	Youth Group
	Safety and Security

\* The above starred items related to net fundraising, see below.

### EXEMPTION B: Annual Standard Exemption by Expenditure Limit Index

It is the desire of the Diocese that every parish should not be deterred from making improvements and repairs to their properties. Parishes with a high financial health and rating do not need exemptions in the same way that a struggling parish with poor financial health will need. This annual indexing provides that all parishes will receive relief proportional to their financial health. To this end, Exemption B seeks to give every parish a standard exemption of income for property improvements as follows:

- (1) Parishes, Missions, and Stations that are significantly subsidized by the Diocese are fully exempt for property improvements and repairs.
- (2) All other Parishes, Missions, and Stations may take a standard income exemption that equals the difference of \$100,000 minus twice their expenditure limit. This is

not for routine maintenance, but for significant projects whether elective or necessary that keep our properties in good condition, enhance, and improve. It is also for large ticket items in maintenance and repair, e.g. a replacement HVAC, roof, resurfacing the parking lot, renovations, new construction, etc. Examples of big ticket elective projects could be building a pavilion, changing to zero scaping, purchasing and installing a new statue of saint. All of these items whether elective or necessary are property improvements that enhance the infrastructure and worship spaces. If you plan to collect income that spans multiple fiscal years, please consider creating a Capital Fund Drive (below). Also, see Unrestricted Gifts (below) for payments on D&L loans.

## EXEMPTION C: Additional considerations

### **Building Projects, Maintenance and Repairs**

New construction, renovation, and significant maintenance and repair projects are ordinary income. However, you can accomplish income for these projects potentially being exempted.

- (1) If a project is designated/ordered by the diocese, it will be automatically approved for full exemption.
- (2) Apply your Exemption B to your project.
- (3) Next, consider applying for a Capital Fund Drive that could possibly help exempt additional income to the project. Capital Fund Drives demonstrate that you are saving up to pay cash for your project.
- (4) Finally, if time is a factor and you need to start your project before you have the cash, then consider a D&L loan. See Unrestricted Gifts (below) for payments on D&L loans.

### **Restricted Gifts**

Solicited restricted gifts are exempt only when applied to an exempt category. Unsolicited restricted gifts potentially could be exempt, if they belong to an exempt category. They could also be non-exempt! When a gift is restricted and non-exempt, the parish is responsible for paying the assessment on the gift. The restriction requires 100% of the gift to be applied to the intent, and the parish may make up the assessment from other unrestricted donations or other funds from in the parish. Exemption is about where the money will be allocated and spent, not because it is “restricted.”

In very rare circumstances an *unsolicited* restricted gift could be given in such large sums of monetary value (5 X your expenditure limit or more) that it could make it impossible for a parish to pay the assessment. If this were to occur, the extraordinary approval will be

evaluated by the Bishop and the Vicar General and taken under financial review for approval for partial or full extraordinary exemption.

### **Unrestricted Gifts**

Unrestricted gifts are normally ordinary income. An unrestricted gift becomes exempt when applied to either a D&L loan, or pre-approved exempt Capital Fund Drive (see below). Otherwise, it will be ordinary income.

### **Net Fundraising**

When raising funds in the parish, net fundraising income (revenue less expenses) is considered ordinary income. If you want to apply for a net fundraising exemption, you must (1) advertise how the money is dedicated/used; (2) the income must be 100% in an exempt category above; (3) you must submit your request for exemption before the event along with a copy of the advertising material.

### **Capital Fund Drives**

Capital fund drives are considered for exemption when the income is going toward an exempt category above. Not all capital fund drives are eligible for exemption. These drives are usually for very large and expensive projects, and often a dedicated D&L savings account is opened and dedicated to its cause. This allows the money to be collected over a longer period of time without being expensed immediately, allows for better donor tracking, and segregation of funds. The exemption expires at the completion of the project.

### **Approvals**

All applications for extraordinary exemption are to be submitted to the Vicar General in writing, along with any necessary supporting documentation. If approved, the pastor or parish administrator must identify the respective income that was approved when submitting financial statements to the Diocesan Finance Office at the end of each fiscal year. Please submit your application before collecting income pertaining to your request.

## **DEADLINE & REPORTING**

Annual ordinary income<sup>i</sup> is verified by the Finance office. Please submit in your annual end of year fiscal reporting to the Diocesan Finance Office by Aug. 31 with the follow:

- (1) Statement of Financial Position for June 30<sup>th</sup>
- (2) Statement of Activities for June 30<sup>th</sup>, to include new FY Budget
- (3) Attestation of Financial Accountability
- (4) Any Exemption B and Exemption C items that have been previously approved. Identification of all income that applies to these exemptions is required. It is the responsibility of the Pastor and Parish Finance Council to review all required reports and ensure their accuracy. Keep in mind that all approved exempt income qualifies only to the maximum cost of the project. See Recommendations (below) for managing any overages.

- (5) Internal Control Questionnaire
- (6) Segregation of Duties Spreadsheet

Once received, the Diocesan Finance Office will review and summarize your parish's ordinary income calculations and be provided to the Pastor. These calculations must be immediately reviewed by the Pastor and any dispute must be submitted by Sep. 30<sup>th</sup>.

## RECOMMENDATIONS

### 1) SECONDARY INTENT

Whenever setting up a capital fund drive, or net-fundraising activity or event, it is recommended that you designate a secondary intent, e.g. Fall Fundraising Event is for the benefit of the new audio visual system for faith formation, and the secondary will be the D&L parish loan. Why? Because if you raise more *restricted* funds than the primary intent costs (audio visual equipment), you will need to return the excess to the donors, or go back to them and request permission to apply the overage elsewhere. This is to comply with IRS rules. If you advertise a secondary exempt cause, you simply move the excess over to it, but it must be advertised in advance. It will save you a lot of time and energy, when you are not required to track down donors after the fact.

### 2) PROJECT MANAGEMENT

Part of managing a project is managing the income. Be sure to plan ahead and if you desire or need help, consult your Parish and Finance Councils and/or the Diocesan Finance Office or Vicar General. Sound fiscal management will help your funds be used more efficiently.

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<sup>i</sup> Canon law authorizes the Bishop to assess parishes for support of the Diocese and other special needs. It is the responsibility of the Pastor or Parish Administrator to provide financial statements that have been reviewed and attested by their respective finance committee. The reports are required for calculation of parish and school assessments, and *Intermountain Catholic* and DDD quotas.